

## Other people's conflicts A Scheme Actuary's perspective

Richard Murphy  
18th September 2007

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### Quotes

"not a conflict of interest so much as a confluence of conflicting motives"  
Leonard Koppett  
on the position of the owners of  
US baseball teams

"70% of defined benefit schemes have no specified policy to manage  
conflict of interest"  
"In [the new scheme funding environment] trustees will need to manage  
any conflicts of interest"

The Pensions Regulator

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### Agenda

- Old issue with new emphasis
- Steps trustees and companies are taking
- Scheme Funding
- The Scheme Actuary's role

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## Multiple potential conflicts of interest

Conflicts have always been there in DB schemes

- between actives, deferreds and pensioners
- trustees who are active members
- trustees who are senior employees
- trustees who are the business owners
- trustees who are the pensions / HR manager
- directors balancing shareholder / staff / personal interest

But are they now more acute?

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## Changes in the last 5 years

- June 2003 - debt on employer
- Pensions Act – trustees to agree the contribution rate
- Deficits and assessment of employer covenant
- Loss of consensus on sharing risk (members were generally unaware of this in any case) and loss of the “with profit” concept elsewhere
- Political unacceptability of losing “guaranteed benefits”
- Pensions Regulator guidance
- Continuous monitoring

So no simple solution!

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## What are trustees and employers doing?

- Talking about conflicts
- Taking legal advice and agreeing protocols
- Taking separate actuarial advice (or no employer advice)
- Avoiding putting the CEO or FD in the trustee role
- Resigning as trustees or stepping out of some decisions
- Monitoring developments in what is expected of trustees
- Taking out discretions (especially pension increases)
- Worrying about conflicts

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## Scheme Funding

Principle is that no-one can negotiate with himself  
New regulations encourage (force?) trustees to consider the following issues explicitly

- What are the objectives?
- What are the obligations?
- Who has the knowledge/skill to negotiate and who will take responsibility?
- What will the process be?
- How do potential and actual conflicts complicate the process?

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## Confidentiality

- Trustees generally duty-bound on employer information
- Secrecy is part of negotiation
- Puts individuals in a very difficult position
- Many are adopting confidentiality agreements and protocols
- Protocols are very hard to operate in practice

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## The robust Scheme Actuary

- Not a mediator – duty is to the (trustee!) client
- Focus the advice to the trustees on the decisions they need to make, given the powers they have
- Flag early any concerns you have
- Do not get bullied into uncomfortable discussions
- Regularly remind everyone what the agreed process is
- Trustees can break the agreed process – not you
- Keep great meeting notes

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## Overall solutions

- Open discussion of conflict and confidentiality issues
- Encourage trustees to take advice
- Act before conflict arises
- Make sure everyone understands the Scheme Actuary's role (including the Scheme Actuary)

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